

2003 DEC 24 11:00 AM ORIGINAL

Michelle A. Thomas
Executive Director -
Federal Regulatory

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December 24, 2003

RECEIVED

DEC 24 2003

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room CY-B402
Washington, D.C. 20554

Re: Permanent Cost Allocations Manual for the Separation of Regulated and Nonregulated Costs for The Southern New England Telephone Company

Dear Ms. Dortch:

Pursuant to Section 64.903(b) of the Commission's rules, as amended by the *Report and Order* in CC Docket No. 99-253, The Southern New England Telephone Company ("SNET") respectfully submits an original and three copies of an updated Cost Allocation Manual ("CAM") filing for The Southern New England Telephone Company.

This annual CAM filing incorporates a description of revisions to cost pools and technical and narrative changes to the CAM. All changes to the CAM can be identified by annotations in the right hand margin of each revised page and are described in the attachment.

Please stamp and return the provided copy to confirm your receipt of this filing. Please contact me at (202) 326-8919 should you have any questions about this CAM filing.

Sincerely,

A handwritten signature in dark ink, appearing to read "M. Thomas".

Michelle Thomas, Executive Director - Federal Regulatory

Enclosures

No. of Copies Received
List Attached

013

TRANSMITTAL LETTER MATRIXDECEMBER 24, 2003 CAM REVISIONS

PAGE	CHANGE FROM	CHANGE TO	REASON FOR CHANGE	QUANTIFICATION OF CHANGE
USOAAACCT				
I-4	Function Code (FC)	Activity Code (AC)	Corporate consistency	Not Applicable (N/A)
I-4	Job Function	Activity	Corporate consistency	N/A
I-4	JFC	AC	Corporate consistency	N/A
I-4	Expenditure Type Code (EXTC)	Expenditure Code (XC)	Corporate consistency	N/A
IV-1	N/A	SBC Data Services, Inc	New	N/A
IV-1	SBC Conventures, Inc	N/A	Dissolved	N/A
IV-1	N/A	SBC IP Communications, Inc	New	N/A
IV-1	SBC Technology Resources, Inc	SBC Laboratories, Inc	Name change	N/A
IV-1	SBC Properties GP, Inc	SBC Knowledge Ventures GP, Inc	Name change	N/A
IV-1	SBC Telecom Properties, Inc	N/A	New	N/A
IV-1	The Texas Alliance	N/A	Dissolved	N/A
IV-1	Williams Communications Group, Inc	N/A	Sold	N/A
IV-1	Southwestern Bell Advertising, L.P.	SBC Advertising, L.P.	Renamed	N/A
Old page IV-3	All entities under Southwestern Bell Communications Services, Inc. (Note: Since the old IV-3 is eliminated, all subsequent Section IV pages have been renumbered.)	N/A	Restructured	N/A
IV-3	N/A	SBC Investment Portfolio, LLC	New	N/A

The Southern New England Telephone Company
Cost Allocation Manual

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PAGE		CHANGE TO		REASON FOR CHANGE		QUANTIFICATION OF CHANGE	
USOA ACCT.	CHANGE FROM						
IV-3	N/A	SBC Portfolio Holdings, LTD	New	N/A			
IV-3	AMDOCS entities	N/A	Restructured	N/A			
IV-3	Telkom S.A.	Telkom S.A. Limited	Name change	N/A			
IV-5	Cable Programming Partners (LP)	N/A	Dissolved	N/A			
IV-5	N/A	SBC Transcel Holdings, LLC	New	N/A			
IV-5	Cegedel	N/A	Sold	N/A			
IV-7	Spectrusite Holdings, Inc	N/A	Restructured	N/A			
IV-8	Pacific Bell Exuds	N/A	Dissolved	N/A			
IV-8	N/A	PBD Services, LLC SBC Advertising, L.P.	New	N/A			
IV-8	Pacific Televis Media Ventures	N/A	Dissolved	N/A			
IV-8	Pacific Televis Systems Ventures	N/A	Dissolved	N/A			
IV-9	TTC Cable, Inc	N/A	Dissolved	N/A			
Old page IV-10	SBC Conventures, Inc	N/A (Horelevision, Inc Ventures in Communications, LLC Complus, L.P. are moved to page IV-14)	Dissolved	N/A			
IV-11	Sterling Commerce (Northern America), Inc	N/A	Sold	N/A			
IV-11, 12	N/A	SBC International, Inc SBC Investment Portfolio, LLC added to organization structure	Restructured	N/A			

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<u>PAGE</u> <u>USOA ACCT.</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION</u> <u>OF CHANGE</u>
IV-12	Sterling Commerce Electronic (Canada) Inc	N/A	Dissolved	N/A
IV-12	Sterling Commerce International Sales Corp (Barbados)	N/A	Dissolved	N/A
IV-12	Sterling Commerce International SARL	N/A	Dissolved	N/A
IV-12	Focus Technology	N/A	Dissolved	N/A
IV-12	Print EDI	N/A	Dissolved	N/A
IV-13	SBC Knowledge Ventures G P, Inc, SBC Properties L P	SBC Knowledge Ventures GP Inc, SBC Knowledge Ventures L P	Renamed	N/A
IV-14	N/A	Hotelevision Inc, Ventures in Communications LLC, Complus L P are moved from old page IV-10 SBC Portroho Holdings, LTD SBC Venture Holdings, LLC, Ventures in Communications International LLC Twoway TV LTD (UK)	New	N/A
IV-15	N/A	Ameritech Corporation (Nevada)	New	N/A
IV-15	N/A	SBC Northern Leasing GP Company	New	N/A
IV-15	N/A	SBC Northern Leasing L P	New	N/A
IV-15 and Old page IV-24	Ameritech Communications Inc	N/A	Merged into Southwestern Bell Communications Services Inc	N/A
IV-15 23	Ameritech Kidsoft Holdings Inc	N/A	Dissolved	N/A

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PAGE		CHANGE FROM		CHANGE TO		REASON FOR CHANGE		QUANTIFICATION OF CHANGE	
<u>USOA ACCT.</u>									
IV-15	SBC Tower Holdings, LLC	N/A				Restructured		N/A	
IV-15	N/A			SBC Northern Leasing GP Company, SBC Northern Leasing, L.P.	New			N/A	
IV-16	Bell Canada Holdings, Inc.	N/A			Sold			N/A	
IV-16	Bell Canada Corporation	N/A			Sold			N/A	
IV-18	N/A			SBC Tower Holdings, LLC	Restructured			N/A	
IV-19	N/A			SBC Services, Inc.	Restructured			N/A	
IV-19	Ameritech Intellectual Properties, Inc.	N/A			Dissolved			N/A	
IV-22	Ameritech EGA, Inc.	N/A			Dissolved			N/A	
IV-22	N/A			SBC Northern Leasing, L.P.	New			N/A	
IV-24	Ameritech Payphone Services of Wisconsin, Indiana and Michigan	N/A			Dissolved			N/A	
V-1	Addition			and modified in the Phase 2 Report and Order in the 2000 Biennial Regulatory Review released November 5, 2001"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199			N/A	
V-2	Addition			"except that the first \$500,000 of asset transfers on a product-by-product basis per year per affiliate may be recorded at net book cost"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199			N/A	

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PAGE

USOA ACCT.CHANGE FROM

V-3

Addition

CHANGE TOREASON FOR CHANGEQUANTIFICATION
OF CHANGE

N/A

"except the first \$500,000 of asset transfers on a product-by-product basis per year, per affiliate, may be recorded at net book cost"

Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199

V-3

"the asset will be recorded at the higher of fair market value or the Company's net book cost"

"the higher of fair market value or Telco's net book cost will be used as a floor for recording on Telco's books, except that the first \$500,000 of assets on a product-by-product basis, per year, per affiliate, may be recorded at net book cost."

Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199

N/A

V-3

"recorded"

"used as a ceiling for recording on Telco's books, except that the first \$500,000 of assets on a product-by-product basis per year, per affiliate, may be recorded at net book cost"

Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199

N/A

V-4

Addition

"as a floor

Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199

N/A

V-4

Addition

"except that the first \$500,000 of services on a service-by-service basis per year per affiliate may be recorded at fully distributed cost"

Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199

N/A

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<u>PAGE</u> <u>USOA ACCT.</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION OF CHANGE</u>
V-4	Addition	"as a ceiling"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199	N/A
V-4	Addition	"except that the first \$500,000 of services on a service-by-service basis, per year, per affiliate, may be recorded at fully distributed cost"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199	N/A
V-4	"services sold to affiliates will be recorded at the higher of fair market value or fully distributed cost"	"the higher of fair market value or Telco's fully distributed cost will be used as a floor for recording on Telco's books, except that the first \$500,000 of services on a service-by-service basis, per year, per affiliate, may be recorded at fully distributed cost"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199	N/A
V-5	"will record the lower of fair market value or fully distributed cost, with the following exception: For services the Company purchases from an affiliate that exists solely to provide services to members of the corporate family, the Company may record fully distributed cost"	"will use the lower of fair market value or fully distributed cost as a ceiling for recording on Telco's books, except that the first \$500,000 of services on a service-by-service basis, per year, per affiliate may be recorded at fully distributed cost. An additional exception is that for services the Company purchases from an affiliate that exists solely to provide services to members of the corporate family, the Company may record fully distributed cost"	Adherence to the Report and Order and Further Notice of Proposed Rulemaking released on November 5, 2001 in CC Docket no. 00-199	N/A

TRANSMITTAL LETTER MATRIXDECEMBER 24, 2003 CAM REVISIONS**PAGE****USOA ACCT.****CHANGE FROM**

V-6 V-15, V-16

"SBC Technology Resources, Inc. (SBC TRI)"

CHANGE TO

"SBC Laboratories, Inc. (SBC Lab)"

REASON FOR CHANGE

Name Change

**QUANTIFICATION
OF CHANGE**

N/A

V-6 V-14

Southwestern Bell Communications, Inc.

Southwestern Bell Communications Services, Inc.

Correction

N/A

V-6

"will implement"

"provides"

Southwestern Bell Communications Services, Inc. has received authority to provide long distance in all 13 states

N/A

V-6

Delete

"when SBC Communications, Inc. receives authority to provide such services in each state"

Southwestern Bell Communications Services, Inc. has received authority to provide long distance in all 13 states

N/A

V-7, V-14

Delete

SBC Interactive

The Southern New England Telephone Company no longer provides services to SBC Interactive

This change results in an estimated impact to Regulated Operations of less than \$10,000

V-7, V-14

Delete

Southwestern Bell Internet Services, Inc.

The Southern New England Telephone Company no longer provides services to Southwestern Bell Internet Services, Inc.

This change results in an estimated impact to Regulated Operations of less than \$30,000

V-7 V-14

Delete

Pacific Bell Internet Services

The Southern New England Telephone Company no longer provides services to Pacific Bell Internet Services

This change results in an estimated impact to Regulated Operations of less than \$50,000

V-7 V-14

Delete

Ameritech Interactive Media Services, Inc.

The Southern New England Telephone Company no longer provides services to Ameritech Interactive Media Services, Inc.

This change results in an estimated impact to Regulated Operations of less than \$20,000

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PAGE		CHANGE FROM		CHANGE TO		REASON FOR CHANGE		QUANTIFICATION OF CHANGE	
USOA ACCT.	V-7 V-14	Delete	Ameritech Advanced Data Services	The Southern New England Telephone Company no longer provides services to Ameritech Advanced Data Services		This change results in an estimated impact to Regulated Operations of less than \$50,000			
V-7	V-15, V-16	Delete	Sterling Commerce Inc	Sterling Commerce Inc no longer provides services to The Southern New England Telephone Company		This change results in an estimated impact to Regulated Operations of less than \$10,000			
V-7	V-15 V-16	Delete	SBC Asset Management, Inc	SBC Asset Management Inc no longer provides services to The Southern New England Telephone Company		This change results in an estimated impact to Regulated Operations of less than \$600,000			
V-8		Delete	Accounting and Finance Services	The Southern New England Telephone Company no longer provides accounting and finance services		This change results in an estimated impact to Regulated Operations of less than \$75,000			
V-11		Addition	"These services provide sales, marketing, customer care, customer collections, customer and staff support and new product development for interstate and international toll services and for telephone communications equipment and voice messaging services and other enhanced service offerings"	Corporate Reorganization	N/A				
V-14		Addition	Telecommunication services (Tariffed)	The Southern New England Telephone Company provides telecommunication services to SBC Operations, Inc		This change results in an estimated impact to Regulated Operations of less than \$20,000			

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<u>PAGE</u> <u>USOA ACCT.</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION</u> <u>OF CHANGE</u>
V-14	Addition	Telecommunication services (Tariffed)	The Southern New England Telephone Company provides telecommunication services to SBC Telecom, Inc.	This change results in an estimated impact to Regulated Operations of less than \$10,000
V-14	Addition	Billing Support Services (Prevailing Price)	The Southern New England Telephone Company provides billing support services to SBC Advanced Solutions, Inc.	This change results in an estimated impact to Regulated Operations of less than \$100,000
V-14	Addition	Billing Support Services (Prevailing Price)	The Southern New England Telephone Company provides billing support services to Southwestern Bell Communications Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$100,000
V-14	Delete	Accounting and Finance Services (FDC)	The Southern New England Telephone Company no longer provides accounting and finance services to Southern New England Telecommunications Corporation	This change results in an estimated impact to Regulated Operations of less than \$75,000
V-14	Delete	Billing Support Services (FDC)	The Southern New England Telephone Company no longer occasionally provides billing support services to SBC Advanced Solutions, Inc.	This change results in an estimated impact to Regulated Operations of less than \$100,000
V-14	Delete	Marketing services and support (FDC)	The Southern New England Telephone Company no longer occasionally provides marketing services and support to SBC Operations, Inc.	N/A

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<u>PAGE</u> <u>USOA ACCT.</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION</u> <u>OF CHANGE</u>
V-14	Delete	Marketing services and support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to SNET America, Inc due to a corporate reorganization	N/A
V-14	Delete	Marketing services and support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to SNET Diversified Group, Inc. due to a corporate reorganization	N/A
V-14	Delete	Marketing services and support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to SBC Global Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$30,000
V-14	Delete	Marketing services and support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to SBC Telecom, Inc.	This change results in an estimated impact to Regulated Operations of less than \$20,000
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to SBC Interactive, Inc.	This change results in an estimated impact to Regulated Operations of less than \$10,000
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to Southwestern Bell Internet Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$30,000

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<u>PAGE</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION OF CHANGE</u>
<u>USOA ACCT</u>				
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to Southwestern Bell Messaging Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$10,000
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to Pacific Bell Internet Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$50,000
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to Ameritech Interactive Media Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$20,000
V-14	Delete	Marketing Services and Support (FDC)	The Southern New England Telephone Company no longer provides marketing services and support to Ameritech Advanced Data Services	This change results in an estimated impact to Regulated Operations of less than \$50,000
V-14	Delete	Property Rental Services (FDC/FMV)	The Southern New England Telephone Company no longer provides property rental services to SNET Information Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$20,000
V-14	Addition	Property Rental Services (FDC/FMV)	The Southern New England Telephone Company provides property rental services to SBC Global Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$10,000

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<u>PAGE</u> <u>USOA ACCT</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION</u> <u>OF CHANGE</u>
V-14	Addition	Property Rental Services (FDC/FMV)	The Southern New England Telephone Company provides property rental services to Southwestern Bell Messaging Services, Inc.	This change results in an estimated impact to Regulated Operations of less than \$10,000.
V-14	Addition	Property Rental Services (FDC/FMV)	The Southern New England Telephone Company provides property rental services to SBC DataComm, Inc.	This change results in an estimated impact to Regulated Operations of less than \$30,000.
V-14	Occasionally	Daily	The Southern New England Telephone Company occasionally provides telecommunication services to SBC Advanced Solutions, Inc.	N/A
V-15	Addition	Leased Space (FDC)	Southern New England Telecommunications, Corp. provides leased space to The Southern New England Telephone Company.	This change results in an estimated impact to Regulated Operations of less than \$10,000,000.
V-15	Delete	Leased Space (FDC)	SBC Asset Management, Inc. no longer provides leased space to The Southern New England Telephone Company.	This change results in an estimated impact to Regulated Operations of less than \$1,000,000.
V-15	Delete	Leased Space (FMV)	SBC Asset Management, Inc. no longer provides leased space to The Southern New England Telephone Company.	This change results in an estimated impact to Regulated Operations of less than \$1,000,000.

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<u>PAGE</u> <u>USOA ACCT</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION OF CHANGE</u>
V-16	Delete	Telecommunications Services (FDC)	Sterling Commerce, Inc. no longer provides telecommunication services to The Southern New England Telephone Company	This change results in an estimated impact to Regulated Operations of less than \$50,000
V-16	Delete	Training & Development (FDC)	SBC Operations, Inc. no longer provides training & development to The Southern New England Telephone Company	This change results in an estimated impact to Regulated Operations of less than \$10,000
General Note 4, VI-20, 31 VI-35 VI-37, VI-38, VI- 41 VI-42, and VI- 43	VI Blank spaces and old lines VI-	Eliminated large blank spaces and old lines	To comport with RA019	N/A
VI-5 2003	'Telecommunications Plant Under Construction – Short Term'	"Telecommunications Plant Under Construction	To correct name of Account 2003	N/A
VI-18 3500	'Accumulated Amortization – Intangible Same as Account Cost Pool Equals Account Directly Assigned to Regulated Directly Assignable	N/A	To delete Account 3500 as a distinct Part 32 Account Account 3500 included in Account 2690 for year 2003 (See CC Docket No. 00-199 released November 5, 2001.)	N/A
VI-19 4040	'Customer Deposits'	'Customers' Deposits'	To correct name of Account 4040	N/A

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PAGE	CHANGE FROM	CHANGE TO	REASON FOR CHANGE	QUANTIFICATION OF CHANGE
USOA ACCT				
VI-19	"Other Current Liabilities Same as Account N/A			
4130	Cost Pool Equals Account. Directly Assigned to Regulated, Directly Assignable. Includes prior Accounts 4030, 4050, 4060, 4120 and 4130."		To delete account not required for the 43-03 ARMS report	N/A
VI-24	'Land and Building Expense'	'Land and Building Expenses'	To correct name of Account 6121	N/A
6121				
VI-30	'Pole Expense'	'Poles Expense'	To correct name of Account 6411	N/A
6411				
VI-39	"Other Operating Income and Expense"	'Other Operating Income and Expenses'	To correct name of Account 7100	N/A
7100				
VI-40	'Operating Investment Tax Credit - Net'	'Operating Investment Tax Credits - Net'	To correct name of Account 7210	N/A
7210				
VII-1	Delete	"or marketing"	No longer applicable	N/A
VII-4	Delete	In addition to reporting time on standard timesheets, marketing personnel retain their regularly kept contemporaneous records of activities for a period of one year. Such records may include appointment calendars, automobile usage logs, telephone logs and personal expense records	Corporate Reorganization	N/A

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<u>PAGE</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON FOR CHANGE</u>	<u>QUANTIFICATION OF CHANGE</u>
<u>USOA ACCT</u>				
VII-5	Delete	MARKETING AND SALES	Corporate Reorganization	N/A
		Consumer Services		
		Residence Service Centers X		
		Customer Service Centers X		
		Supervisory and Support X		
		Business Services		
		Business Service Centers X		
		Service Order Entry Center X		
		Supervisory and Support X		
		Marketing X		

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

COST ALLOCATION MANUAL

December 24, 2003

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

COST ALLOCATION MANUAL

TABLE OF CONTENTS

INTRODUCTION	Section I
NONREGULATED ACTIVITIES INFORMATION	Section II
INCIDENTAL ACTIVITIES	Section III
CHART OF CORPORATE AFFILIATES	Section IV
TRANSACTIONS WITH AFFILIATES	Section V
COST APPORTIONMENT TABLES	Section VI
TIME REPORTING PROCEDURES	Section VII

**The Southern New England Telephone Company
Cost Allocation Manual**

SECTION I

INTRODUCTION

INTRODUCTION

1.1 PURPOSE

The Southern New England Telephone Company's (Company) Cost Allocation Manual (Manual) documents the procedures that are used to separate the costs of regulated telephone services from nonregulated activities in accordance with the Federal Communications Commission's (FCC) Report and Order in FCC Docket 86-111.

This Manual will be revised as necessary to reflect any changes in the Company's service offerings and changes due to FCC regulatory requirements.

1.2 SCOPE

This Manual contains the following sections:

SECTION I Introduction

SECTION II Nonregulated Activities Information

SECTION III Incidental Activities

SECTION IV Chart of Corporate Affiliates

SECTION V Transactions with Affiliates

SECTION VI Cost Apportionment Tables

SECTION VII Time Reporting Procedures

1.3 FULLY ATTRIBUTABLE COSTING METHODOLOGY

This Manual reflects the FCC's prescribed fully allocated costing concept. This approach apportions the Company's costs, either directly or indirectly, among cost objectives (i.e., regulated, nonregulated or common) based on the principles of cost causation. Costs are apportioned to a cost objective if a cause and effect relationship can be observed between that cost and its cost objective. The combination of full allocation and cost causation constitutes allocation on a fully attributable cost basis. This relationship may be exclusive, in which case a cost can be directly assigned to a single cost objective without requiring attribution. In some cases, costs are incurred by regulated services and nonregulated activities which can be attributed to these two cost objectives based upon direct or indirect measures of cost causation. In other cases, costs are incurred by regulated services and nonregulated activities which cannot be directly or indirectly attributed between cost objectives and require the use of a general allocator.

Consistent with Part 64 Rules and Regulations, this Manual recognizes costs as falling into four categories:

- . Directly Assignable: Costs of assets and/or resources which are incurred exclusively for providing regulated services or nonregulated activities.
- . Directly Attributable: Costs of assets and/or resources which are incurred to provide both regulated services and nonregulated activities and are apportioned using direct measures of cost causation.

Indirectly Attributable: Costs of assets and/or resources which are incurred for both regulated services and nonregulated activities and are apportioned using indirect measures of cost causation

Unattributable: Costs of assets and/or resources which are incurred for both regulated services and nonregulated activities, where no direct or indirect causal relationship exists. These costs are apportioned to both regulated services and nonregulated activities by utilizing a general allocator.

1.4 MAXIMIZATION OF DIRECT ASSIGNMENT

The following cost attribution guidelines support the procedures in this Manual:

- . Costs are directly assigned to either regulated services or nonregulated activities to the maximum extent possible.
- . Costs which cannot be directly assigned to either regulated services or nonregulated activities are grouped into homogenous cost categories and allocated in accordance with direct or indirect measures of cost causation.
- . When neither direct nor indirect measures of cost causation exist, the common cost category is allocated based upon a general allocator computed by using the ratio of regulated/nonregulated expenses directly assigned or attributed to total expenses.

This process maximizes direct assignment of costs and thereby minimizes the residual to be spread on a non-cost-causative basis.

1.5 FINANCIAL ANALYSIS SYSTEM

The Financial Analysis System (FAS), a computer-based management information system, is utilized by the Company to identify and track costs and provide information regarding the employment and deployment of resources. The Financial Analysis System permits the capturing of expenditures by organization, by discrete function, and by type of expenditure. This system directly translates into the USOA-Part 32 account structure and thus provides a comprehensive audit trail of these costs.

Financial Analysis System Codes (FAS Codes) have been established to support the system. Every transaction undertaken by the Company including labor, material and supply invoices, vouchers and other journal entries are encoded with FAS Codes as follows:

. Activity Code (AC)

The AC designation on each transaction identifies the business function served by the transaction and is translatable into a distinct USOA-Part 32 account. Activity Codes (ACs) designate the nature of the tasks or functions being performed by an employee according to his/her job assignment. Each employee may be assigned several ACs to capture the variety of work activities being performed.

. Responsibility Code (RC)

The RC designation required on each transaction in the Company identifies the organization in the corporate structure charged with the cost. The Company has established an extensive RC hierarchy whereby each employee within an organization or work group has been assigned one RC. Each nonregulated activity is assigned a unique nonregulated RC as well. As new nonregulated products and services are researched, investigated and developed, distinct nonregulated RCs are established by the Controllers Department to identify these costs. The use of RCs on all transactions permits the direct reporting of expenditures to regulated services or nonregulated activities.

. Expenditure Code (XC)

The XC designation required on each transaction identifies the nature of the expenditure. This series of codes has been established on a very detailed basis to allow for the tracking of all components of wages, direct and indirect nonwage costs, material purchases and corporate transactions.

1.6 USE OF TARIFFED RATES FOR TARIFFED SERVICES

The FCC Part 64 Rules and Regulations require that tariffed services be provided to a nonregulated activity at tariffed rates. Tariffed services are used in the provision of regulated network components to nonregulated activities.